



February 16, 2011

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1404
Debit Card Interchange Fees and Routing Proposed Rule

Dear Ms. Johnson:

We are writing on behalf of the Illinois Bankers Association and our state's nearly 700 federally insured commercial banks and savings institutions regarding the Board of Governors of the Federal Reserve's proposed rule on interchange fees, referenced above.

We recognize that the Board has been directed to prescribe final regulations pursuant to Section 1075 of the Dodd-Frank Act, entitled "Reasonable Fees and Rules For Payment Card Transactions," which states that "the amount of any interchange transaction fee that an issuer may receive or charge with respect to an electronic debit transaction shall be reasonable and proportional to the costs incurred by the issuer."

While this language in Dodd-Frank does impose significant restrictions on debit card interchange fees, it also provides the Board with considerable discretion to interpret the law when determining the per transaction fee. We believe that the Board's proposed rule does not exercise this discretion to the fullest extent permitted under the law.

The Board's proposal falls short of capturing many of the actual and variable costs associated with providing debit card services. Network and processing fees, marketing and advertising costs, the costs of printing and mailing cards, the costs of handling customer inquiries and disputes, fraud losses, fraud prevention costs, systems changes to meet continuously changing regulatory requirements, fixed overhead, and other ongoing expenses and capital investments, all vary widely from issuer to issuer, yet all issuers incur these costs on a very real and substantial basis.

The proposed rule would severely restrict the ability of debit card issuers to recoup these actual costs, and it clearly would eliminate the ability of issuers to earn a fair rate of return for providing debit card services.

As has been said before, Burger King does not base its price for a hamburger solely on the cost of ground beef and a bun, and if it was required to do so, it clearly would have to recoup other related expenses (and lost earnings) by raising prices on its other products.

The proposed rule would demonstrably diminish the income of debit card issuers, and financial institutions would be forced to recapture this lost income one way or another, whether by increasing other fees to their customers, by lowering interest on deposits, or by raising interest on loans. Customers who today rely on free or low-cost banking accounts could no longer have access to such accounts, or, at a minimum, they may have to pay a higher price for such services, ultimately driving many of them out of the banking system altogether and into the venues of less regulated financial service providers, like payday lenders and currency exchanges.

There is no question that any proposal which unrealistically limits debit card interchange fees would drastically change the way that consumers are accustomed to paying for goods and services. Our massive, national payment system requires enormous capital investments by card issuers to maintain and constantly upgrade this system, and it is because of these capital investments that card transactions are virtually effortless for retailers and consumers alike. It is unrealistic to assume that these ongoing investments could or would continue at the same levels when transaction fees are arbitrarily capped at truly *de minimus* amounts.

Moreover, while proponents of the new law argue that only large card issuers will be affected by the proposed rule, we strongly disagree. Our industry has experienced firsthand how price controls ultimately force a market into a course that favors the lowest-cost option. In the case of debit card interchange fees, countless retailers will be reluctant to accept cards from smaller banks carrying higher interchange rates. This result may not have been contemplated by the legislation, but as a practical matter, there is no means to prevent millions of retailers from simply discouraging customers from using debit cards other than those issued by the lower-fee issuers above the \$10 billion threshold.

Meanwhile, the larger issuers have incomparable resources (such as the ability to offer frequent usage and rebate programs) for encouraging consumers to gravitate to their cards, while also making up for their lower interchange revenues through new, multiple account fees that few community banks could impose while continuing to hold on to their customer base. Notwithstanding their exemption, over time many community banks will be forced either to lower their interchange fees to the large issuers' price point, or to stop issuing debit cards altogether, as unthinkable as the latter might seem. Simply put, there are vast differences in economies of scale, which impacts not only the costs of doing business, but sometimes even the ability to remain in a business.

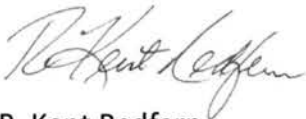
We have heard from scores of Illinois bankers at community banks who are extremely concerned about losing interchange fee revenue. Just consider a community bank that generates \$250,000 a year in interchange fees.

Reducing that revenue by \$50,000 or \$100,000 would have a disproportionate and even devastating effect on that institution's income and its ability to provide debit card services to its customers. Ill-considered fee restrictions inevitably would cause competition in this market segment to suffer, and when that happens, consumers are hit the hardest.

It is our understanding that the Board's uppermost mission is to promote and protect the stability of our nation's financial system. We fervently believe that the Board's proposed rule would adversely affect the safety and soundness of many well-capitalized community banks, while harming the payment system and ultimately hurting the consumers who use it. We respectfully urge the Board to withdraw its proposed rule, exercise its fullest discretion, and more thoroughly consider all of the direct and indirect costs associated with the debit card payment system, both on an industry-wide basis and as they can and do exist on an institution by institution basis, in order to meet its rulemaking mandate.

We sincerely appreciate your consideration of our views. Thank you for this opportunity to comment.

Sincerely,



R. Kent Redfern
Illinois Bankers Association Chairman and
Bank & Trust Company President and CEO



Linda Koch
President and CEO
Illinois Bankers Association

The Illinois Bankers Association is a full-service trade association dedicated to creating a positive business climate that benefits the entire banking industry and the communities they serve. Founded in 1891, the IBA brings together state and national banks, savings banks, and savings and loan associations of all sizes in Illinois. Over 20% of IBA members are community banks with less than \$50 million in assets, and over 70% of IBA members are community banks with less than \$250 million in assets. Collectively, the IBA represents nearly 90 percent of the assets of the Illinois banking industry, which employs more than 100,000 men and women in nearly 5,000 offices across the state.